

Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Friday 12 May 1978

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NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Friday, 12 May 1978.

The NID Cable is for the purpose of informing senior US officials.

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PERU: New Austerity Measures

25X1 [] Peru's military government on Wednesday announced stringent new economic measures designed to qualify Lima for credits of up to \$500 million from the International Monetary Fund and other institutions. The funds are needed to avoid debt default this year. These partial measures--including currency devaluation and a sharp hike in taxes--are a prerequisite to renegotiating an IMF standby agreement that collapsed in March.

25X1 [] The measures include an immediate 7-percent devaluation of the sol to be followed by further downward adjustments; a 10-percent tax hike on most exports; a 17.5-percent jump in taxes on traditional exports; an increase of more than 20 percent in sales taxes, and sharp increases in income taxes.

25X1 [] Before Lima can get a new standby agreement, it must also substantially raise the price of gasoline and lower numerous consumer subsidies. The government of President Morales Bermudez is deferring these unpopular measures until after the constituent assembly election on 4 June, the first national election since 1963. When gas prices were last raised in June 1977, violent countrywide protests resulted in 20 deaths and required massive security action.

25X1 [] The IMF will provide Peru \$40 million this year if Lima can renegotiate and maintain the standby agreement. Commercial banks and non-Communist governments would provide the additional \$430 million needed to meet foreign commitments this year.

25X1 [] Previous austerity measures are already reducing domestic demand and output and severely eroding business confidence. We expect at least a 5-percent decline in real GNP in 1978. Tight domestic credit controls are taking a heavy toll on business investment; inflation, fixed wages, and rising unemployment are lowering disposable income. Production in all major sectors except mining and agriculture will probably decline sharply, with the steepest drops in construction and manufacturing. []

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USSR: Yakutsk Liquefied Natural Gas

25X1 [] The Japanese and US oil company participants in a proposed project for the liquefaction of East Siberian natural

gas will meet in Tokyo on 23 May to work out their differences over planning for the venture. The Yakutsk project, which envisions the export of 350 billion cubic feet of liquefied natural gas to the US and Japan annually for 25 years, will take at least six years and over \$6 billion in Western investments to complete once an agreement is reached. Exports from Yakutsk could add several billion dollars annually to Soviet hard currency earnings.

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[] Export of the East Siberian natural gas to Japan and the US is one of the few viable ways the USSR can benefit from the gas. The great distance of the East Siberian gasfields--Botyuobin and Vilyuy--from Soviet consuming centers in the west makes transport by a cross-country pipeline uneconomical. Gas consumption in the Soviet Far East, on the other hand, would require less than one-third of those fields' potential output--currently estimated at 1.4 trillion cubic feet annually.

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[] During the Tokyo meeting on Yakutsk, the Japanese and a US consortium (El Paso Natural Gas and Occidental Petroleum) will attempt to hammer out an overall approach on which both can agree. If these talks are successful, a final pipeline route and costing will be studied and economic feasibility determined before the final "go-ahead" is given.

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[] Several factors complicate the situation. Because the pipeline's route will be determined by the choice of reserves to be tapped, it may exceed 4,000 kilometers in length--mostly through permafrost--and will add substantially to the total cost and construction time. At least six years will be required to make the system operational.

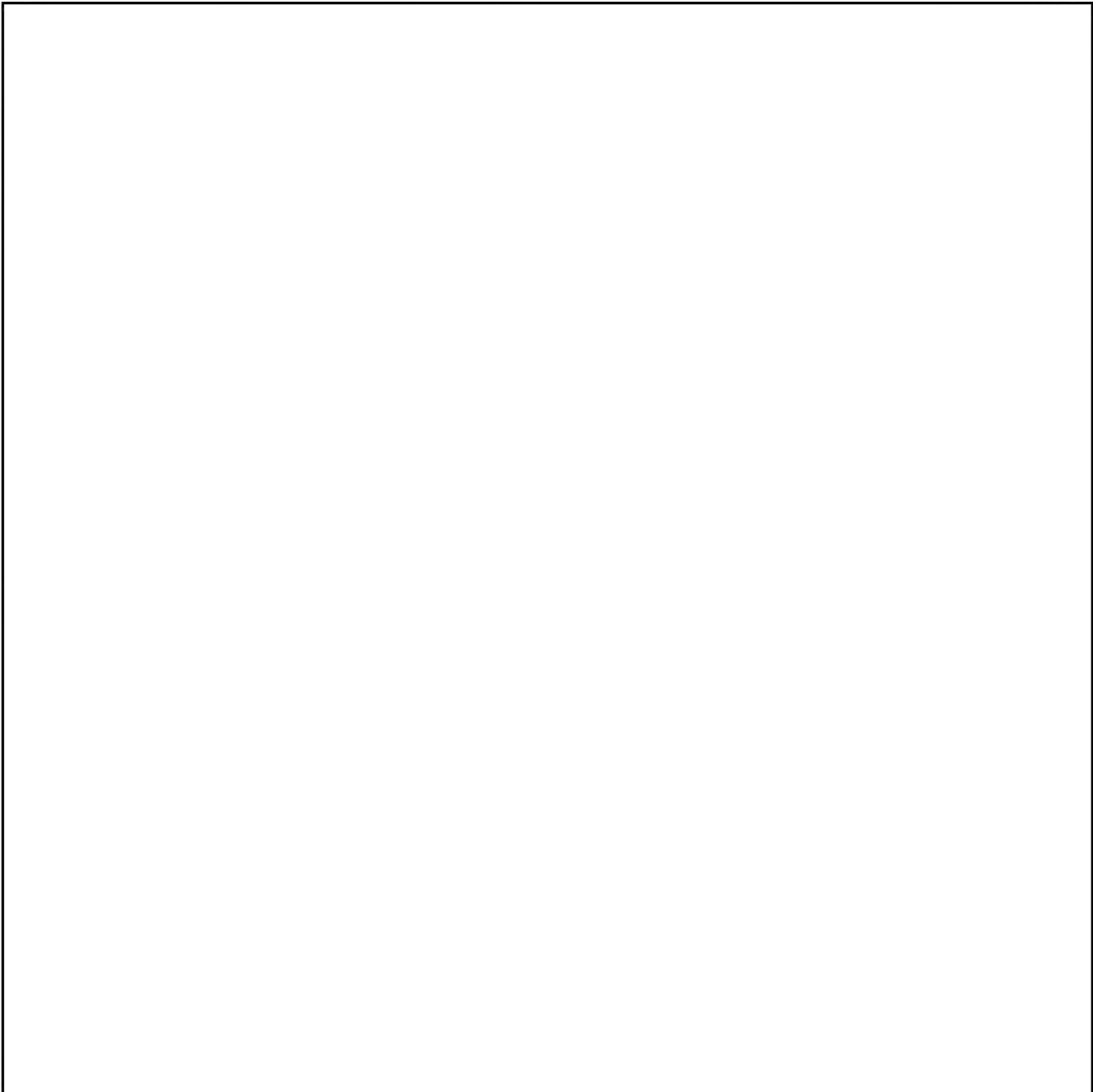
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[] Technical and logistic problems posed by laying the pipeline underground in permafrost could prove excessive and could delay exports of liquefied natural gas until the mid-1990s. The desirability of locating the liquefied natural gas terminal far enough south to avoid winter ice blockage adds further to the pipeline's length. Nakhodka--in the far south--will not be used, but the pipeline will have to stretch to Olga, the northernmost warm-water port in the Soviet Far East.

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[] Cost and financing have yet to be agreed on. The current Soviet estimate is \$4.5 billion, while Western projections run to \$5 billion to \$6 billion--and this may increase as costs rise for materials and labor, particularly foreign labor. Both estimates, moreover, include only Western labor and materials and do not include the investment of Soviet resources.

25X1 . [] Initial Soviet proposals for several billion dollars
in Western credits call for more than the Japanese and the US
consortium are willing to provide; they include financing for
projects that are only partly related to the Yakutsk venture.
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UNITED KINGDOM: Politics

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[redacted] //Parliamentary approval in the UK earlier this week of two Conservative amendments to the Labor government's finance bill will not drastically affect the government's ability to survive. There was little pressure on the Labor Party's allies in Parliament to support the government because they knew in advance that Prime Minister Callaghan would not interpret the defeats as meaning he would have to call for a vote of confidence.//

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[redacted] //If the government had a Parliamentary majority, such defeats on major financial legislation would mean that the government's own members were voting against it and would

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thus be serious setbacks. Under the present circumstances, however, the defeats are no more than an embarrassment to Callaghan.//

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[REDACTED] //The government's survival depends on votes from Liberals, Ulster Unionists, and Nationalists in confidence matters, and the Tory amendments were considered motions on which each party could vote its preference without fear that the government's "working majority" would be undermined on future issues. Although unlikely, a string of such defeats could cause the government serious damage leading to an early election.//

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[REDACTED] //More than 60 members of Parliament did not vote on the second amendment, and the Conservatives did not even offer a no-confidence motion to back their pro forma demands for the government to resign. The government may be able to overturn the amendments in the bill's later stages or introduce legislation to recover the revenue lost by them from other sources.//

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[REDACTED] //Although British politics may be undergoing a major reorientation, it is too early to tell whether the system is settling into a "continental style" of minority governments requiring multiparty support. Opinion polls on the issue of party support have conflicted over the past few years. The continued dramatic collapse of support for the Liberal Party, possible stabilization of the nationalist movements, and the number of seats that cannot be considered secure for any party, make speculation about the end of the traditional British system of government risky. [REDACTED]

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SPAIN: Gonzalez' Proposal

25X1 [] Spanish Socialist Party leader Felipe Gonzalez announced early this week that he would propose dropping the party's Marxist label at the party congress set for December. The proposal, an unabashed bid by Gonzalez to project a more moderate image in anticipation of municipal elections later this year, has already drawn criticism from some other Socialist leaders. It will also provoke considerable protest from party rank and file, who are more radical than the leadership. Gonzalez will argue that the proposal does not reflect any significant change in the party's Marxist orientation, and he is unlikely to be thwarted.

25X1 [] The proposal came on the heels of the Spanish Communist Party's dropping of "Leninist" in its self-definition. Gonzalez clearly wants to keep ahead of Communist leader Carrillo in reassuring the Spanish electorate that his party is not radical. The Socialist leader told journalists that he did not mind being called a social democrat, and he made it clear that he thinks the party stands to gain more votes on its right than it loses on its left. He noted that the Marxist label, which was added to the party program only in 1976, made the party vulnerable to attacks from rightists.

25X1 [] Gonzalez may also have wanted to counter the impact of his party's recent merger with the small, radical Popular Socialist Party. An initial draft of the unity document leaked

to the press in March shocked moderate Socialists with its radical program, but the document was watered down considerably by the time it was read at the unification ceremony on 30 April.

[] The proposal, though clearly an electoral gambit, could foreshadow a genuine tilt toward moderation; in any case, it is an indication of Gonzalez' basic pragmatism. []

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RHODESIA: Muzorewa's Position

[] Bishop Abel Muzorewa will meet with the executive committee of his United African National Council on Sunday to resolve the party's position over the dismissal late last month of Byron Hove, who had been appointed co-minister for justice in Rhodesia's biracial Ministerial Council. At stake may be the African National Council's--and Muzorewa's--continued participation in the interim government, established in March to prepare Rhodesia for black majority rule by the end of the year.

[] With Muzorewa abstaining, the interim government's Executive Council, which also includes Prime Minister Ian Smith, Ndabaningi Sithole, and Chief Jeremiah Chirau, refused to reinstate Hove earlier this week following an investigation into possible "irregularities" surrounding his dismissal for publicly attacking white control of Rhodesia's police force.

[] Some hard-liners within his party may press Muzorewa to withdraw from the interim government. The hard-liners charge that Hove's dismissal proves that Smith's internal settlement is a fraud and that continued participation will cost the Bishop wide political support among Rhodesia's blacks.

[] The Bishop has been aware all along of the potential pitfalls in dealing with Smith and has not repudiated other options such as the UK-US plan for a Rhodesian settlement. He is, however, probably not ready to break with Smith at a time when Muzorewa is consolidating a strong political following in Rhodesia.

[] He will probably tell his party on Sunday that a break should be avoided unless it involves an issue such as postponement of national elections.

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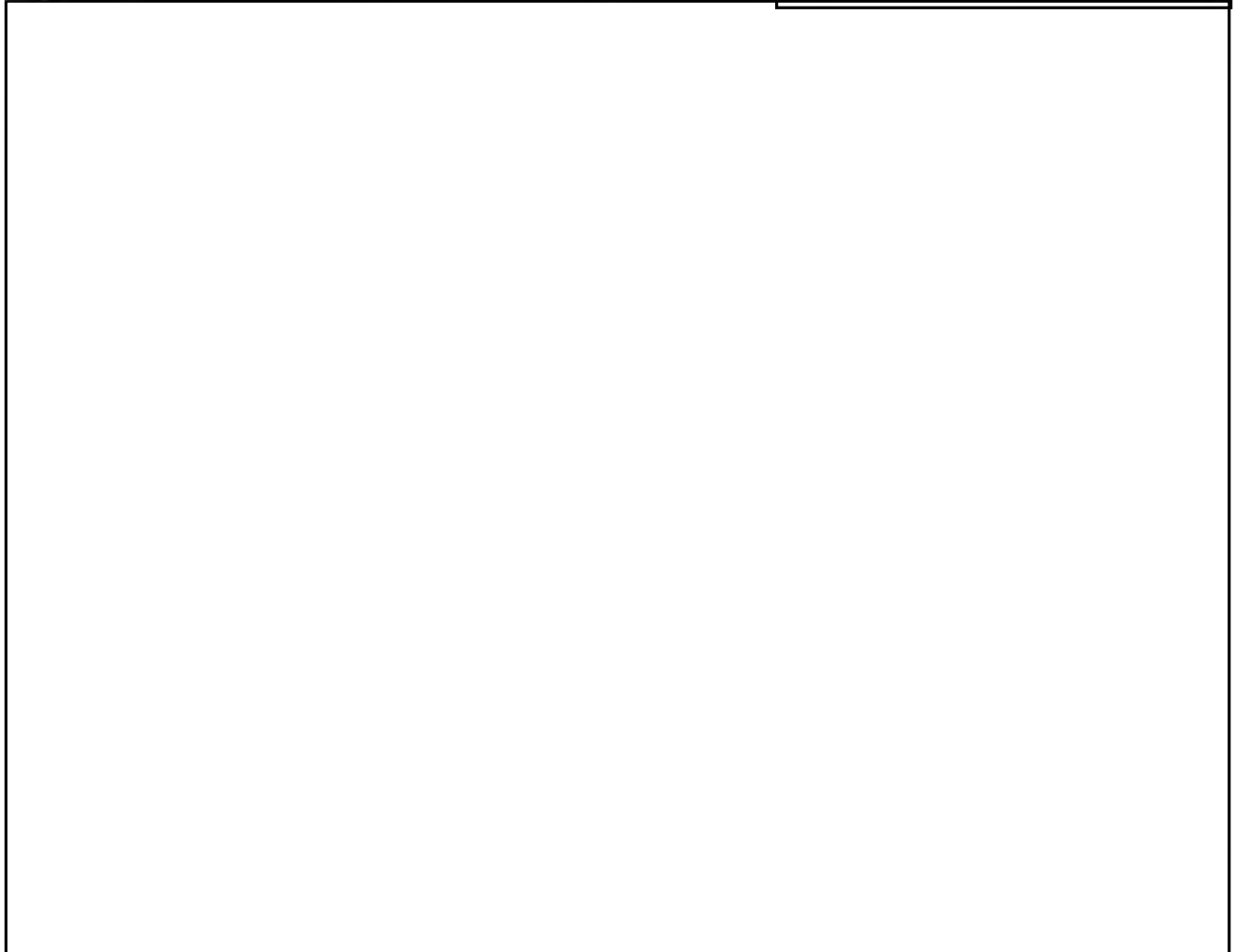
[REDACTED] Until the issue blows over, Muzorewa probably will keep some distance from his "partners" in the interim government in order to maintain an image of independence and to show Smith in particular the importance of the Bishop's party to the success of the internal settlement.

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[REDACTED] Muzorewa's refusal to participate with the other leaders of the interim government in a rally on Wednesday in a tribal trust territory east of Salisbury is a case in point. The poor showing--some 600 persons turned out--can be attributed largely to the absence of the Bishop, who draws impressive crowds because of his personal reputation and the backing of a fairly effective political organization. [REDACTED]

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CANADA: Summer Election Out

25X1 [REDACTED] //Canadian Prime Minister Trudeau yesterday afternoon ruled out a national election in July. Although the customary four years between elections will have passed by then, Trudeau is not required by law to call an election until July 1979. The popularity of Trudeau's Liberal Party and his position have eroded recently.//

25X1 [REDACTED] //Trudeau's Liberal Party has dropped in the polls lately. A Gallup poll taken in April and published last week indicated the Liberals and opposition Progressive Conservatives each had the support of 41 percent of decided voters. Even worse for the Liberals, projections from a private poll taken by the party the same month gave more seats to the Progressive Conservatives than to the Liberals.//

25X1 [] //Both national unity and the poor state of the economy concern the Canadian voter, but the economy--the issue on which Trudeau is more vulnerable--gained added importance this spring as inflation and unemployment and the value of the Canadian dollar fell. Even Trudeau's strong suit--the voters' belief that he is the one man able to hold the country together--was weakened somewhat with the election last month of Claude Ryan to the provincial leadership of the Quebec Liberal Party. Ryan is widely believed to be capable of winning the next election in Quebec from separatist Premier Rene Levesque. []

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BRIEF

UK-Iran

25X1 [] The British Government has signed a \$1.4 billion agreement to build an arms plant in Iran, according to a British Defense Ministry spokesman. The plant is to produce ammunition, gun barrels, and other military equipment. The project is expected to take five or six years to complete.

25X1 [] The UK is Iran's leading arms supplier after the US. This new agreement will push London's total military sales to Iran to about \$4.1 billion. Major British weapons already sold to Iran include the Rapier missile system, Chieftain tanks, and naval craft. []

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